

VZCZCXRO0744
RR RUEHHM RUEHPB
DE RUEHIN #1499/01 1830843
ZNY CCCCC ZZH
R 020843Z JUL 07
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 5868
INFO RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 6987
RUEHUL/AMEMBASSY SEOUL 8758
RUEHKO/AMEMBASSY TOKYO 8907
RHMFISS/DEPT OF ENERGY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001499

SIPDIS

SIPDIS

STATE PASS ALEX BURKART; DEPT OF ENERGY FOR
INTERNATIONAL-PUMPHREY

E.O. 12958: DECL: 07/02/2012

TAGS: [ECON](#) [ENRG](#) [KNNP](#) [US](#) [TW](#)

SUBJECT: GE AND TAIPOWER IN CONTRACT DISPUTE OVER FOURTH
NUCLEAR POWER PLANT

REF: TAIPEI 00719

Classified By: ECONOMIC SECTION CHIEF HANSCOM SMITH FOR REASONS 1.4 B/D

11. (C) SUMMARY. On June 27, AIT met with Yao Ching-chuan, Taipower Director of Nuclear Engineering, who is overseeing the completion of Taiwan's fourth nuclear power plant (NPP) at Lungmen, on the northeast coast. The Lungmen project has been under construction for 10 years and was slated for completion in 2000. The Legislative Yuan approved funding this year to allow its completion by 2009. GE's contract with Taipower ends July 15. Both GE and Taipower want to extend the contract but are mired in disputes over the cost of delays which GE claims are solely Taipower's fault, while Taipower claims both are responsible. Since the start of the project, Taipower claims it has paid GE US\$250 million in late penalties, and is now trying to stave off an additional claim by GE of US\$160 million in late fees. Further delays could result if both sides fail to reach an agreement by mid-July, but it is unlikely that GE's contract will be terminated. END SUMMARY

PROJECT DELAYED MULTIPLE TIMES

12. (C) The 4th NPP project was originally slated for completion in 2000, but was stopped by President Chen Shui-bian for political reasons and then restarted in 2001. The 4th NPP is now scheduled to begin operation in July 2009. GE engineers have told AIT privately that this date is overly optimistic, and a delay of one year or more is a strong possibility. The Council for Economic Planning and Development (CEPD) confirmed that an additional NT\$44.7 billion (US\$1.35 billion) was added to the total budget by the Legislative Yuan this year to allow for the plant's completion. The latest delay was blamed on the late completion of generators 1 and 2 at the plant. The total budget allocation for the 4th NPP is NT\$233.5 billion (US\$7.2 billion) of which about NT\$40 billion has not been obligated yet. It is believed that the reasons for the latest delay have to do with the changing of subcontractors, failures in the bidding process for machinery, and inconsistency or poor coordination within the project management. This marks the fourth delay since the inception of the project, which, with the exception of the recently completed high speed rail line, is the second most expensive public project ever undertaken in Taiwan.

WHO'S RESPONSIBLE FOR DELAYS?

13. (C) According to Yao, GE is responsible for the design and provision of equipment for the project as well as ensuring the project follows safety guidelines. GE has already collected about US\$250 million in late fees in connection with the first delay in 2000. Yao said that at the time, Taipower had a claim against GE for late delivery of equipment, but because of the project's cancellation had to pay GE compensation instead. The current contract dispute is again about money. Yao said GE wants to collect an additional US\$160 million in fees it says are due to additional delays in the project. According to Yao, GE claims that it has to maintain a contractual force of 500 technical personnel while the Lungmen project stagnates. However, those experts have already been put on another nuclear project in the U.S. while they wait to be called in case the GE contract is renewed. GE's position is that the salaries and fees of those experts have to be paid by Taipower, while Taipower claims those costs need to be shared since it is not the only cause for delays (Note: Taipower claims GE has not been on time with equipment deliveries.)

UNLIKELY THAT GE WILL LOSE CONTRACT

14. (C) AIT ESTH officer asked Yao whether there was a possibility that GE's contract might be given to one of its competitors, such as Toshiba or Hitachi. Yao said the nuclear division of GE and Hitachi will in fact merge on July 1 (Note. Hitachi and GE will in fact enter into a 40/60 strategic partnership to establish joint companies in Japan, U.S. and Canada. Toshiba, the other player in the nuclear power plant market, has already bought out Westinghouse. End note). Yao said this merger with Hitachi will not change GE's obligations under the previous contract, and in spite of

TAIPEI 00001499 002 OF 002

the disagreement between Taipower and GE, the likelihood of GE's contract being terminated is slim. Taipower is committed to completing the 4th NPP, said Yao, and failure is simply not an option given the huge investment in this project. Yao added that both parties will try to come to an agreement before the July 15 contract expiration.

15. (C) COMMENT. GE has sought AIT assistance in its negotiations with Taipower. AIT representatives have held separate meetings with GE and Taipower counterparts, and have advised GE that the matter should be resolved between the two parties. Given the willingness on both sides to see the project completed, AIT is optimistic that GE's contract will be extended. END COMMENT

YOUNG